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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001288

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TAGS: [ECON](#) [EPET](#) [ENRG](#) [EFIN](#) [PGOV](#) [PREL](#) [TU](#) [IZ](#)
SUBJECT: PROGRESS ON TURKISH LETTERS OF CREDIT, GOI LOOKING
FOR NEW SUPPLIERS

REF: A. GOLDBERGER-PATTERSON 4/14 EMAIL
[1](#)B. GOLDBERGER-PATTERSON 4/9 TELCON
[1](#)C. GOLDBERGER-O'HARA 4/6 EMAIL

Classified By: Deputy Chief of Mission David Satterfield, for reasons 1
.4 (b) and (d).

[1](#)1. (C) SUMMARY: Trade Bank of Iraq (TBI) Deputy Director George Zayya George told us April 17 that TBI has signed off on approximately 60 of the 70 letters of credit (L/Cs) necessary to re-start Turkish fuel imports to Iraq. TBI also is processing amendments to L/Cs to which the Government of Turkey (GOT) has objections. Both Deputy Prime Minister Chalabi and State Oil Marketing Organization (SOMO) Director General Dr. Falah al-Amiry expressed frustration April 12 with the lengthy process and have accused the GOT of undue pressure on the GOI. Chalabi and al-Amiry vowed to continue work to diversify Iraq's supply of imported fuel. END SUMMARY.

L/Cs With Turkey

[1](#)2. (C) Emboffs delivered copies of the revised L/Cs offered to the GOI by Turkey (ref B) to SOMO DG Dr. Falah al-Amiry and Deputy Prime Minister Ahmed Chalabi in separate meetings on April 11. Al-Amiry, who said he had not received the L/Cs directly, expressed unhappiness with the lengthy process that has left Iraq without Turkish fuel imports for two months. Calling the L/C process new for SOMO, Al-Amiry admitted that GOI action on the import issue had thus far been disorganized. Nonetheless, al-Amiry said that SOMO had agreed "weeks ago" to all of the terms stipulated by the Turks -- despite viewing a number of them as unfair (e.g., Iraq bearing both the buyer and seller costs for processing all the L/Cs as one).

[1](#)3. (SBU) Al-Amiry said that Iraq and Turkey had agreed to establish import relationships with more than 30 Turkish companies, requiring some 70 individual L/Cs (subcontracts from the larger, blanket L/Cs provided in Ref A). Despite a number of the sub-contracts having been written to the Turks' satisfaction, al-Amiry reported that the GOT refuses to allow any shippers to initiate fuel shipments until all of the L/Cs are completed to the GOT's satisfaction.

Movement at TBI

[1](#)4. (SBU) TBI Deputy Director George reported April 17 that,

to date, TBI has signed off on some 60 of the 70 outstanding L/Cs. According to George, TBI also is drafting amendments to address GOT objections.

GOI "Fed Up"

15. (C) DPM Chalabi told us that he intends Iraq to import fuel via tenders through the port of Basrah rather than continue to deal with the Turks. Echoing al-Amiry's comments, Chalabi maintained that "Iraq has done everything" necessary to finalize the L/Cs, and yet the Turks keep sending back the L/Cs for further revision. Chalabi blamed the deadlock on the GOT, describing the situation as "unacceptable."

Terms of Acceptance at Issue

16. (C) The Turks also are frustrated at what they perceive to be the GOI's inability or unwillingness to formulate L/C language that tracks with the March memorandum of understanding (MOU) on terms of acceptance. Iraq disputes over \$250 million of its nearly \$1 billion in arrears owed for Turkish fuel imports in 2005. At issue is the GOI assertion that Turkish firms did not ship the type of fuel requested (e.g., providing kerosene when diesel was requested) or that the firms provided poor quality product for which the GOI refused to pay subsequent to delivery. (NOTE: The MOU stipulates that SOMO must issue a credit note authorizing payment within 21 days of receipt of product. Failure to produce the credit note on time results in GOI

BAGHDAD 00001288 002 OF 002

acceptance of the product and addition of the amount in question to Iraq's bill. This is the point, according to the GOT, missing from the L/Cs (ref A). END NOTE.) The MOU balances this protection of Turkish interests by having SOMO verify imports at loading, requiring Turkish shippers to file a performance bond, and establishing a committee of interested parties to arbitrate disputes.

17. (C) COMMENT: Al-Amiry disparaged both the "sluggish" Iraqi bureaucracy and the "tough" Turkish bargaining approach, vowing to "punish" the Turks by purchasing fuel elsewhere. Given the GOI's record of late payments, however, it is not surprising that the GOT is being a stickler: the GOT is correct that the GOI agreed to these terms in the March MOU. Although we support the GOI's initiative to diversify its fuel supply (which will lower overall costs by switching from trucked fuel to ship/pipeline delivery), Iraq would be hard-pressed to locate new supplies immediately. The GOI has eased some of the gasoline shortage by increasing imports arriving by ship through Basrah; however, the LPG supply remains critically low and prices exceedingly high, particularly in northern Iraq where the price is \$10.00 for a 12kg cylinder (the official price is \$.41). Post will continue to follow up with both TBI and SOMO to ensure that the L/Cs are implemented. Once this happens, Turkish fuel imports could resume within a week or two. END COMMENT.
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